

**TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE**

**FOR THE YEARS ENDED  
JUNE 30, 1995, AND JUNE 30, 1994**

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**Leslie Bethea**  
Editor

November 21, 1996

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Charles E. Smith, Chancellor

Tennessee Board of Regents

1415 Murfreesboro Road, Suite 350

Nashville, Tennessee 37217

and

Dr. Jack E. Campbell, President

Walters State Community College

500 South Davy Crockett Parkway

Morristown, Tennessee 37813

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Walters State Community College, for the years ended June 30, 1995, and June 30, 1994. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. The college has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of the internal control structure and tests of compliance disclosed one deficiency, which is detailed in the Results of the Audit section of this report. The college's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

WRS/sdr  
96/058

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

**Walters State Community College**

For the Years Ended June 30, 1995, and June 30, 1994

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control structure; to determine compliance with laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## INTERNAL CONTROL FINDING

### **Controls Over Accounting Operations Should Be Improved**

Walters State Community College has not established adequate controls over accounting operations. Some employees have incompatible responsibilities or inappropriate access to assets. These situations weaken controls and could result in the improper use of funds and subsequent adjustments to the accounting records to prevent detection (page 7).

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified because of the omission of the liability for accrued compensated absences from the financial statements.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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AUDIT REPORT  
TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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INTRODUCTION

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Walters State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**OBJECTIVES OF THE AUDIT**

The objectives of the audit were

1. to consider the college’s internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

**SCOPE OF THE AUDIT**

The audit was limited to the period July 1, 1993, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1995, and June 30, 1994. Walters State Community College is an institution of the Tennessee Board of Regents, which is an integral part

of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## BACKGROUND AND ORGANIZATION

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### BACKGROUND

In 1957, the state legislature ordered a study of community college programs. Acting on the recommendation of the Governor and the State Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee. Walters State Community College was established in 1967; the college first admitted students in the fall of 1970. The General Assembly vested the governance of Walters State Community College in the Tennessee Board of Regents on July 1, 1972.

### ORGANIZATION

The governance of Walters State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

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## PRIOR AUDIT FINDING

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on May 31, 1995. A follow-up of the prior audit finding was conducted as part of the current audit.



## **RESOLVED AUDIT FINDING**

The current audit disclosed that the college has corrected the previous audit finding concerning the failure to perform an annual physical inventory of equipment.

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## **RESULTS OF THE AUDIT**

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### **AUDIT CONCLUSIONS**

#### Internal Control Structure

As part of the audit of the college's financial statements for the years ended June 30, 1995, and June 30, 1994, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. A reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation, which follow the report on the internal control structure. Consideration of the internal control structure disclosed no material weaknesses.

#### Compliance with Laws and Regulations

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards. The compliance report follows the report on the internal control structure.

#### Fairness of Financial Statement Presentation

The college has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the college's financial statements. The independent auditor's report follows the compliance report.

**Report on the Internal Control Structure  
Based on an Audit of the Financial Statements  
Performed in Accordance With  
*Government Auditing Standards***

June 14, 1996

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of Walters State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated June 14, 1996. Our report was qualified because the college excluded the liability for accrued compensated absences from the balance sheets.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The college's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with

generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the college's financial statements for the years ended June 30, 1995, and June 30, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted one matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the college's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following reportable condition was noted: controls over accounting operations should be improved. This condition is described in the Finding and Recommendation section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the college's management in a separate letter.

The Honorable W. R. Snodgrass  
June 14, 1996  
Page Three

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/sdr

## **FINDING AND RECOMMENDATION**

### **CONTROLS OVER ACCOUNTING OPERATIONS SHOULD BE IMPROVED**

#### **FINDING:**

Management of Walters State Community College has not established adequate controls over accounting operations. Several instances of inadequate segregation of duties were noted in the business office. The Director of Accounting Services, who is responsible for approving bank reconciliations, opened the bank statements for the operating, payroll, and business investment accounts during the audit period. This control weakness was identified by management during the 1995 Financial Integrity Act review, and the statements are currently delivered unopened to the reconcilers. Unchanged, though, is the fact that the Director of Accounting Services, who has the supervisory responsibility of preparing journal entries, approving check registers and journal entries, and updating the Financial Reporting System (FRS) and the Student Information System(SIS), has access to blank checks, the check printer keys, signature plates, and the cashier's petty cash fund because the director maintains the combination to the safe inside the vault. She also had custody of a \$475 petty cash fund during the audit period. Access to these items, along with her supervisory responsibilities, weakens controls and could result in the improper use of funds and subsequent adjustments to the accounting records to prevent detection.

The business office accountant supervises the cashiers, receipts cash in their absence from work and when they are away from their work stations, prepares the deposit when the cashier is absent, updates FRS and SIS, and reconciles the operating bank statement. The accountant's access to cash receipts, in relation to her other duties, weakens controls and may enable her to divert cash from the bank deposit and make adjustments to the accounting records to prevent detection.

In addition to the accountant, three other business office employees — the executive secretary, the business analyst, and the part-time secretary/clerk — stated they take incoming receipts when the cashier and relief cashier are not available. During non-business hours, the cashier's petty cash fund is maintained in an unlocked compartment of the safe in the vault, which allows access to this fund by the Director of Accounting Services and the account clerk who both have the combination to the safe. Access to assets should be limited to as few employees as possible. With the potential for several employees to make transactions in one cash drawer while unauthorized employees also have access to the drawer, accountability is weakened.

All employees have access to the blank checks that are stored in the vault in the business office because the vault is left open during business hours. The business office vault combination was not changed when an employee with the combination moved from a purchasing position to the Director of Internal Audit position. The employee resigned as the Director of Internal Audit in January 1995. The combination was not changed until April 17, 1996, when the matter was brought to management's attention by the auditors. In addition, because they have the

combination to the safe, the accountant, the cashier, and the account clerk have access to the keys to the check printer and the signature plates which are kept in an unlocked compartment in the safe. Controls are weakened when employees have unnecessary access to blank checks and check-signing equipment.

#### RECOMMENDATION:

Management of Walters State Community College should establish effective internal controls designed to segregate responsibilities and limit access to assets. In situations where it is not possible to adequately segregate responsibilities, compensating controls should be in place. The Director of Accounting Services should not have access to cash, unreconciled bank statements, blank checks, and the check-signing equipment. The accountant should either not have access to cash transactions or should not be responsible for preparing the bank reconciliation since these duties are incompatible. Alternative procedures should be established for handling cash receipts transactions when the cashier and relief cashier are not available. Blank checks, keys to the check printer, and signature plates should be kept in a secured location with access limited to only necessary employees. The combination to the vault should be changed promptly whenever an employee with the combination leaves a position.

#### MANAGEMENT'S COMMENT:

We concur with the finding. Walters State did address the internal control concerns with the auditors during the audit and made some of the changes before the field audit was concluded. Specifically, the Director of Accounting Services no longer has custody of a \$475 petty cash fund. This fund has been transferred to the accountant. The keys to the check-signing equipment and the signature plates will be moved immediately from their present location within the safe, and the director will not have access to these plates nor to the keys to the check-signing equipment [printer]. The accountant no longer has update capability in the accounting system (FRS) and, therefore, could not make adjustments to the accounting records (i.e., cash transactions) in performing her responsibilities as cashier supervisor and reconciler of the general operating bank account. Procedures were established in May 1996 while the auditors were on site to ensure, in the absence of the cashier or relief cashier, that the person receipting cash transactions had a change fund available to them other than access to the cashier or relief cashier's fund. A procedure is currently being developed whereby only necessary employees have access to blank checks, keys to the check-signing machine, and signature plates. A cabinet which has a padlock with keys has been built to house blank checks and the Vice President for Business Affairs and the Director of Accounting Services will address who will have access to the keys to this cabinet as well as to the keys to the check printer and signature plates by Friday, November 15, 1996. The combination to the vault was changed in April 1996. The Vice President for Business Affairs and/or the executive secretary will be responsible to see that the combinations to the vault and/or safe are changed promptly whenever an employee with a combination leaves a position.

The institution recognizes the value of internal controls and generally believes that compensating controls were in place to safeguard the institution's assets. However, procedural changes addressed in this audit response should further strengthen existing practices.

**Compliance Report Based on an Audit of the  
Financial Statements Performed in Accordance  
With *Government Auditing Standards***

June 14, 1996

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of Walters State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated June 14, 1996. Our report was qualified because the college excluded the liability for accrued compensated absences from the balance sheets.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the college is the responsibility of the college's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.



The Honorable W. R. Snodgrass  
June 14, 1996  
Page Two

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/sdr

## **Independent Auditor's Report**

June 14, 1996

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of Walters State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1995, and June 30, 1994, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the college has excluded the liability for accrued compensated absences from the accompanying balance sheets. In our opinion, accrued compensated absences should be included to conform with generally accepted accounting principles.

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph,

The Honorable W. R. Snodgrass  
June 14, 1996  
Page Two

the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Walters State Community College, as of June 30, 1995, and June 30, 1994, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, we have also issued reports dated June 14, 1996, on our consideration of the college's internal control structure and on its compliance with laws and regulations.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/sdr

TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
BALANCE SHEETS  
JUNE 30, 1995, AND JUNE 30, 1994

	June 30, 1995	June 30, 1994		June 30, 1995	June 30, 1994
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 3 and 4)	\$ 2,788,187.65	\$ 2,169,982.06	Liabilities:		
Accrued interest receivable	1,321.53	1,345.55	Accounts payable	\$ 118,631.37	\$ 159,945.95
Accounts receivable (net of allowance			Accrued liabilities	875,838.40	862,526.25
of \$12,829.79 at June 30, 1995,			Deferred revenue	541,655.75	485,954.37
and \$14,712.31 at June 30, 1994)	99,138.52	50,101.33	Checks payable (Note 8)	392,987.92	-
Inventories (Note 7)	25,689.65	29,398.21	Other liabilities	20,362.85	23,365.05
Prepaid expenses and deferred charges	69,790.68	19,405.84			
Other assets	20,536.19	15,570.83	Total liabilities	1,949,476.29	1,531,791.62
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital (Note 9)	53,982.45	-
			Allocation for encumbrances	383,202.01	288,248.26
			Allocation for designated appropriations	854.22	4,920.00
			Discretionary allocations:		
			Allocation for subsequent budget	245,000.00	200,000.00
			Allocation for athletics	2,263.81	2,301.06
			Unallocated	369,885.44	258,542.88
			Total fund balances	1,055,187.93	754,012.20
Total general	3,004,664.22	2,285,803.82	Total general	3,004,664.22	2,285,803.82
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	268,328.02	332,224.26	Liabilities:		
Accounts receivable (net of allowance			Accounts payable	4,936.63	11,696.98
of \$1,568.93 at June 30, 1995,					
and \$471.47 at June 30, 1994)	57,943.93	67,714.76	Total liabilities	4,936.63	11,696.98
Inventories (Note 7)	238,603.08	234,143.42			
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital (Note 9)	296,547.01	301,858.18
			Allocation for encumbrances	13,748.66	39,559.33
			Discretionary allocation:		
			Allocation for contingencies	65,920.18	63,502.08
			Unallocated	183,722.55	217,465.87
			Total fund balances	559,938.40	622,385.46
Total auxiliary enterprises	564,875.03	634,082.44	Total auxiliary enterprises	564,875.03	634,082.44
Total unrestricted	3,569,539.25	2,919,886.26	Total unrestricted	3,569,539.25	2,919,886.26
Restricted:			Restricted:		
Cash and cash equivalents (Notes 3 and 4)	49,302.30	26,223.07	Liabilities:		
Accounts and grants receivable	441,477.59	530,914.97	Accounts payable	196,760.58	140,987.79
			Accrued liabilities	8,270.90	14,082.18
			Total liabilities	205,031.48	155,069.97
			Fund balance	285,748.41	402,068.07
Total restricted	490,779.89	557,138.04	Total restricted	490,779.89	557,138.04
Total current funds	\$ 4,060,319.14	\$ 3,477,024.30	Total current funds	\$ 4,060,319.14	\$ 3,477,024.30
Loan funds:			Loan funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 637.39	\$ 603.96	Fund balances:		
			U.S. government grants refundable	\$ 548.89	\$ 518.81
			Institutional funds:		
			Restricted - matching	60.99	57.64
			Restricted - other	27.51	-
			Unrestricted	-	27.51
Total loan funds	\$ 637.39	\$ 603.96	Total loan funds	\$ 637.39	\$ 603.96

TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
BALANCE SHEETS  
JUNE 30, 1995, AND JUNE 30, 1994

	June 30, 1995	June 30, 1994		June 30, 1995	June 30, 1994
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	\$ 1,610,670.22	\$ 1,717,207.09	Liabilities:		
LGIP deposit-capital projects (Note 6)	160,790.36	160,545.47	Accounts payable	\$ 585.33	\$ 14,666.59
Accounts receivable	1,051.00	-			
			Fund balance:		
			Unrestricted (Note 11)	1,771,926.25	1,863,085.97
Total unexpended plant	1,772,511.58	1,877,752.56	Total unexpended plant	1,772,511.58	1,877,752.56
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	327,149.27	794,384.43	Liabilities:		
			Accounts payable	13,810.00	86,863.31
			Fund balance:		
			Unrestricted (Note 11)	313,339.27	707,521.12
Total renewals and replacements	327,149.27	794,384.43	Total renewals and replacements	327,149.27	794,384.43
Investment in plant (Note 10):			Investment in plant:		
Land	424,573.60	424,573.60	Fund balance:		
Buildings	13,489,981.14	13,489,981.14	Net investment in plant	27,475,211.30	23,666,212.90
Improvements other than buildings	1,130,482.43	1,026,589.74			
Equipment	7,295,627.00	6,398,702.36			
Library books	949,560.00	928,300.00			
Other library holdings	962,703.00	929,504.00			
Construction in progress	3,222,284.13	468,562.06			
Total investment in plant	27,475,211.30	23,666,212.90	Total investment in plant	27,475,211.30	23,666,212.90
Total plant funds	\$ 29,574,872.15	\$ 26,338,349.89	Total plant funds	\$ 29,574,872.15	\$ 26,338,349.89
Agency funds:			Agency funds:		
Nonfoundation funds:			Nonfoundation funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 435,925.37	\$ 563,665.02	Liabilities:		
Accrued interest receivable	183.33	108.00	Accounts payable	-	734.80
Accounts and notes receivable	148.00	148.00	Deposits held in custody for others	\$ 436,256.70	\$ 563,186.22
Total nonfoundation funds	436,256.70	563,921.02	Total nonfoundation funds	436,256.70	563,921.02
Foundation funds (Note 13):			Foundation funds:		
Cash and cash equivalents (Notes 3 and 4)	421,206.07	174,488.13	Liabilities:		
Investments (Note 5)	3,428,350.99	2,529,399.75	Notes payable (Note 12)	67,000.00	90,000.00
Accrued income	40,556.97	28,781.06	Accrued interest payable	107.41	626.82
Land	325,000.00	325,000.00	Deposits held in custody for foundation	4,485,522.22	3,304,557.72
Buildings	337,515.60	337,515.60			
Total foundation funds	4,552,629.63	3,395,184.54	Total foundation funds	4,552,629.63	3,395,184.54
Total agency funds	\$ 4,988,886.33	\$ 3,959,105.56	Total agency funds	\$ 4,988,886.33	\$ 3,959,105.56

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1995

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>						
Unrestricted current fund revenues	\$ 17,302,036.39	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	1,318,403.71	-	-	-	-	-
State appropriations	-	71,400.00	-	2,755,877.83	-	-
Federal grants and contracts	-	8,268,299.62	-	-	-	-
State grants and contracts	-	2,262.80	-	-	-	-
Private gifts, grants, and contracts	-	94,702.03	-	-	-	-
Investment income	-	-	33.43	-	-	-
Interest on loans receivable	-	-	370.06	-	-	-
Equipment use charges (Note10)	-	-	-	-	107,900.00	-
Expended for plant facilities (including \$792,188.57 charged to current fund expenditures)	-	-	-	-	-	4,154,176.16
Other	-	24,229.43	-	3,452.30	-	-
Total revenues and other additions	<u>18,620,440.10</u>	<u>8,460,893.88</u>	<u>403.49</u>	<u>2,759,330.13</u>	<u>107,900.00</u>	<u>4,154,176.16</u>
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>						
Educational and general expenditures	17,028,326.53	8,355,800.21	-	-	-	-
Auxiliary enterprise expenditures	1,146,233.49	-	-	-	-	-
Indirect costs recovered	-	172,152.91	-	-	-	-
Refunded to grantors	-	34,343.93	-	-	-	-
Provision for doubtful accounts	-	-	370.06	-	-	-
Expended for plant facilities	-	-	-	2,869,472.48	492,515.11	-
Expended for noncapital items	-	-	-	126,017.37	71,718.15	-
Disposal of plant facilities	-	-	-	-	-	301,457.55
Library holdings revaluation (Note 10)	-	-	-	-	-	41,618.58
Other	-	14,916.49	-	-	-	2,101.63
Total expenditures and other deductions	<u>18,174,560.02</u>	<u>8,577,213.54</u>	<u>370.06</u>	<u>2,995,489.85</u>	<u>564,233.26</u>	<u>345,177.76</u>
<b>TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)</b>						
Nonmandatory:						
Unexpended plant	(190,000.00)	-	-	190,000.00	-	-
Renewals and replacements	(17,151.41)	-	-	(45,000.00)	62,151.41	-
Total transfers	<u>(207,151.41)</u>	<u>-</u>	<u>-</u>	<u>145,000.00</u>	<u>62,151.41</u>	<u>-</u>
Net increase (decrease) for the year	238,728.67	(116,319.66)	33.43	(91,159.72)	(394,181.85)	3,808,998.40
Fund balances at beginning of year	1,376,397.66	402,068.07	603.96	1,863,085.97	707,521.12	23,666,212.90
Fund balances at end of year	<u>\$ 1,615,126.33</u>	<u>\$ 285,748.41</u>	<u>\$ 637.39</u>	<u>\$ 1,771,926.25</u>	<u>\$ 313,339.27</u>	<u>\$ 27,475,211.30</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1994

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>						
Unrestricted current fund revenues	\$ 15,882,412.92	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	1,270,041.56	-	-	-	-	-
State appropriations	-	70,000.00	-	375,885.22	-	-
Federal grants and contracts	-	8,764,208.69	-	-	-	-
State grants and contracts	-	16,658.56	-	-	-	-
Private gifts, grants, and contracts	-	80,908.33	-	-	-	-
Investment income	-	-	13.92	-	-	-
Interest on loans receivable	-	-	224.29	-	-	-
Equipment use charges (Note 10)	-	-	-	-	100,370.00	-
Expended for plant facilities (including \$710,839.59 charged to current fund expenditures)	-	-	-	-	-	1,475,934.94
Other (Note 16)	-	-	341.22	-	2,253.05	-
Total revenues and other additions	<u>17,152,454.48</u>	<u>8,931,775.58</u>	<u>579.43</u>	<u>375,885.22</u>	<u>102,623.05</u>	<u>1,475,934.94</u>
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>						
Educational and general expenditures	15,814,050.49	8,442,937.35	-	-	-	-
Auxiliary enterprise expenditures	1,077,030.85	-	-	-	-	-
Indirect costs recovered	-	168,792.83	-	-	-	-
Refunded to grantors	-	59,336.09	-	-	-	-
Expended for plant facilities	-	-	-	480,209.14	284,886.21	-
Expended for noncapital items	-	-	-	204,416.36	33,177.82	-
Disposal of plant facilities	-	-	-	-	-	111,188.51
Library holdings revaluation (Note 10)	-	-	-	-	-	130,645.64
Other	-	14,091.44	-	-	-	-
Total expenditures and other deductions	<u>16,891,081.34</u>	<u>8,685,157.71</u>	<u>-</u>	<u>684,625.50</u>	<u>318,064.03</u>	<u>241,834.15</u>
<b>TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)</b>						
Unexpended plant	(462,800.00)	-	-	462,800.00	-	-
Renewals and replacements	(16,999.81)	-	-	-	16,999.81	-
Total transfers	<u>(479,799.81)</u>	<u>-</u>	<u>-</u>	<u>462,800.00</u>	<u>16,999.81</u>	<u>-</u>
Net increase (decrease) for the year	(218,426.67)	246,617.87	579.43	154,059.72	(198,441.17)	1,234,100.79
Fund balances at beginning of year	1,594,824.33	155,450.20	24.53	1,709,026.25	905,962.29	22,432,112.11
Fund balances at end of year	<u>\$ 1,376,397.66</u>	<u>\$ 402,068.07</u>	<u>\$ 603.96</u>	<u>\$ 1,863,085.97</u>	<u>\$ 707,521.12</u>	<u>\$ 23,666,212.90</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 1995

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<b>REVENUES</b>			
Tuition and fees	\$ 4,425,173.55	\$ -	\$ 4,425,173.55
State appropriations	12,017,700.00	71,400.00	12,089,100.00
Federal grants and contracts	172,152.91	8,162,945.21	8,335,098.12
State grants and contracts	6,969.49	4,243.56	11,213.05
Private gifts, grants, and contracts	3,225.00	117,211.44	120,436.44
Sales and services of educational activities	352,843.02	-	352,843.02
Sales and services of auxiliary enterprises	1,318,403.71	-	1,318,403.71
Other sources	323,972.42	-	323,972.42
Total current revenues	<u>18,620,440.10</u>	<u>8,355,800.21</u>	<u>26,976,240.31</u>
<b>EXPENDITURES AND TRANSFERS</b>			
Educational and general:			
Instruction	10,248,796.14	217,586.06	10,466,382.20
Public service	179,359.53	5,242,074.96	5,421,434.49
Academic support	1,379,894.80	123,173.48	1,503,068.28
Student services	1,695,606.71	91,675.84	1,787,282.55
Institutional support	1,796,524.62	1,233.53	1,797,758.15
Operation and maintenance of plant	1,568,535.12	927.55	1,569,462.67
Scholarships and fellowships	159,609.61	2,679,128.79	2,838,738.40
Total educational and general expenditures	<u>17,028,326.53</u>	<u>8,355,800.21</u>	<u>25,384,126.74</u>
Nonmandatory transfer for:			
Unexpended plant	190,000.00	-	190,000.00
Total educational and general	<u>17,218,326.53</u>	<u>8,355,800.21</u>	<u>25,574,126.74</u>
Auxiliary enterprises:			
Expenditures	1,146,233.49	-	1,146,233.49
Nonmandatory transfer for:			
Renewals and replacements	17,151.41	-	17,151.41
Total auxiliary enterprises	<u>1,163,384.90</u>	<u>-</u>	<u>1,163,384.90</u>
Total expenditures and transfers	<u>18,381,711.43</u>	<u>8,355,800.21</u>	<u>26,737,511.64</u>
<b>OTHER TRANSFERS AND ADDITION (DEDUCTIONS)</b>			
Excess of restricted receipts over transfers to revenues	-	105,093.67	105,093.67
Indirect costs recovered	-	(172,152.91)	(172,152.91)
Refunded to grantors	-	(34,343.93)	(34,343.93)
Other deduction	-	(14,916.49)	(14,916.49)
Net increase (decrease) in fund balances	<u>\$ 238,728.67</u>	<u>\$ (116,319.66)</u>	<u>\$ 122,409.01</u>

The notes to the financial statements are an integral part of this statement.



TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 1994

	Unrestricted	Restricted	Total
<u>REVENUES</u>			
Tuition and fees	\$ 4,090,800.32	\$ -	\$ 4,090,800.32
State appropriations	10,921,400.00	70,000.00	10,991,400.00
Federal grants and contracts	169,203.13	8,284,982.19	8,454,185.32
State grants and contracts	93,358.39	10,123.74	103,482.13
Private gifts, grants, and contracts	10,018.95	77,831.42	87,850.37
Sales and services of educational activities	364,860.50	-	364,860.50
Sales and services of auxiliary enterprises	1,270,041.56	-	1,270,041.56
Other sources	232,771.63	-	232,771.63
Total current revenues	<u>17,152,454.48</u>	<u>8,442,937.35</u>	<u>25,595,391.83</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Instruction	9,803,338.86	218,004.26	10,021,343.12
Public service	161,930.59	5,268,918.22	5,430,848.81
Academic support	1,071,604.91	110,556.81	1,182,161.72
Student services	1,581,961.22	73,998.28	1,655,959.50
Institutional support	1,613,523.73	3,636.62	1,617,160.35
Operation and maintenance of plant	1,445,113.18	-	1,445,113.18
Scholarships and fellowships	136,578.00	2,767,823.16	2,904,401.16
Total educational and general expenditures	<u>15,814,050.49</u>	<u>8,442,937.35</u>	<u>24,256,987.84</u>
Nonmandatory transfer for:			
Unexpended plant	462,800.00	-	462,800.00
Total educational and general	<u>16,276,850.49</u>	<u>8,442,937.35</u>	<u>24,719,787.84</u>
Auxiliary enterprises:			
Expenditures	1,077,030.85	-	1,077,030.85
Nonmandatory transfer for:			
Renewals and replacements	16,999.81	-	16,999.81
Total auxiliary enterprises	<u>1,094,030.66</u>	<u>-</u>	<u>1,094,030.66</u>
Total expenditures and transfers	<u>17,370,881.15</u>	<u>8,442,937.35</u>	<u>25,813,818.50</u>
<u>OTHER TRANSFERS AND ADDITION</u>			
<u>(DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	488,838.23	488,838.23
Indirect costs recovered	-	(168,792.83)	(168,792.83)
Refunded to grantors	-	(59,336.09)	(59,336.09)
Other deduction	-	(14,091.44)	(14,091.44)
Net increase (decrease) in fund balances	<u>\$ (218,426.67)</u>	<u>\$ 246,617.87</u>	<u>\$ 28,191.20</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1995, AND JUNE 30, 1994

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The college is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of its governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

**BASIS OF PRESENTATION**

The financial statements of the college have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The college uses the AICPA College Guide model for accounting and financial reporting.

**BASIS OF ACCOUNTING**

The financial statements of the college have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All re-stricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, ex-penditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings, and nonmandatory transfers, for all other cases.

**FUND ACCOUNTING**

TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets.

All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

#### Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include the bookstore, food services, and vending operations. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

#### Loan Funds

TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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Loan funds consist of resources made available for student loans.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, and (3) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

**NOTE 2. COMPENSATED ABSENCES**

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued compensated absences, the effects of which are material to the financial statements, be recorded as earned. The college's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by \$778,642.92 at June 30, 1995, and \$757,182.32 at June 30, 1994, and increased the unrestricted current fund expenditures by \$21,460.60 for the year ended June 30, 1995, and by \$80,416.27 for the year ended June 30, 1994.

**NOTE 3. CASH AND CASH EQUIVALENTS**

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1995, cash and cash equivalents consisted of \$8,817.50 in bank accounts, \$5,115.00 of petty cash on hand, \$985,000.00 of certificates of deposit, \$4,779,322.48 in the State of Tennessee

TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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Local Government Investment Pool administered by the State Treasurer, and \$283,941.67 in a business investment account. At June 30, 1994, cash and cash equivalents consisted of \$104,838.10 in bank accounts, \$4,015.00 of petty cash on hand, \$985,000.00 of certificates of deposit, \$4,740,764.28 in the State of Tennessee Local Government Investment Pool, and \$104,706.11 in a business investment account.

**NOTE 4. DEPOSITS**

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the college. Category 1 consists of deposits that are insured or collateralized with securities held by the college or by its agent in the college's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the college's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the college's name.

At June 30, 1995, the carrying amount of the college's deposits was \$1,277,759.17, and the bank balance including accrued interest was \$1,847,953.85. Of the bank balance, \$102,374.12 was category 1 and \$1,745,579.73 was category 2.

At June 30, 1994, the carrying amount of the college's deposits was \$1,194,544.21, and the bank balance including accrued interest was \$2,117,794.79. Of the bank balance, \$102,333.40 was category 1 and \$2,015,461.39 was category 2.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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**NOTE 5. INVESTMENTS**

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Walters State Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. Investments are valued at cost, or in the case of gifts, at fair value on the date of receipt. Certificates of deposit have been included with other deposits in Note 4 to determine the adequacy of collateral security pledged.

The foundation's investments are categorized below to indicate the level of risk assumed by the college at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the foundation's name.

TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

June 30, 1995

	Category			Carrying Amount	Market Value
	<u>1</u>	<u>2</u>	<u>3</u>		
Foundation:					
U. S. government securities	\$ -	\$ -	\$1,701,499.52	\$1,701,499.52	\$1,732,977.14
Corporate bonds	-	-	\$ 796,517.00	796,517.00	823,156.33
Corporate stocks	<u>2,317.07</u>	<u>-</u>	<u>\$ 883,073.01</u>	885,390.38	1,000,748.78
	<u><u>\$2,317.07</u></u>	<u><u>\$ -</u></u>	<u><u>\$3,381,089.53</u></u>		
Investments not susceptible to credit risk categorization:					
Cash surrender value of life insurance				44,944.09	44,944.09
Money market funds				<u>281,164.99</u>	<u>283,941.67</u>
				3,709,515.98	3,885,768.01
Less: Cash equivalents - money market funds				<u>(281,164.99)</u>	<u>(283,941.67)</u>
Total investments on the balance sheet				<u><u>\$3,428,350.99</u></u>	<u><u>\$3,601,826.34</u></u>

June 30, 1994

	Category			Carrying Amount	Market Value
	<u>1</u>	<u>2</u>	<u>3</u>		
Foundation:					
U. S. government securities	\$ -	\$ -	\$ 952,030.77	\$952,030.77	\$ 930,050.27
Corporate bonds	-	-	846,357.00	846,357.00	827,556.12
Corporate stocks	<u>2,317.07</u>	<u>-</u>	<u>632,908.20</u>	635,225.27	633,104.23
Other investments	<u>-</u>	<u>-</u>	<u>52,250.00</u>	52,250.00	53,508.75
	<u><u>\$2,317.07</u></u>	<u><u>\$ -</u></u>	<u><u>\$2,483,545.97</u></u>		
Investments not susceptible to credit risk categorization:					
Cash surrender value of life insurance				43,536.71	43,536.71
Money market funds				<u>104,220.19</u>	<u>104,706.11</u>
				2,633,619.94	2,592,462.19
Less: Cash equivalents - money market funds				<u>(104,220.19)</u>	<u>(104,706.11)</u>
Total investments on the balance sheet				<u><u>\$2,529,399.75</u></u>	<u><u>\$2,487,756.08</u></u>

**NOTE 6. LGIP DEPOSIT-CAPITAL PROJECTS**

TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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The college's capital projects are administered by the State of Tennessee's Department of Finance and Administration. The college's estimated share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. Funds are withdrawn by the Department of Finance and Administration to cover the expenditures as they are incurred. The funds in the account are not available to the college for any other purpose until the project is completed and any remaining funds are released by the Department of Finance and Administration.

**NOTE 7. INVENTORIES**

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are maintained on an average-cost or first-in, first-out basis.

**NOTE 8. CHECKS PAYABLE**

These amounts represent the sum of checks written in excess of the college's checking account balance because of the college's use of a controlled disbursement account. Through the use of a controlled disbursement account, the college maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

**NOTE 9. ALLOCATION FOR WORKING CAPITAL**

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.



TENNESSEE BOARD OF REGENTS  
WALTERS STATE COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1995, AND JUNE 30, 1994

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**NOTE 10. PLANT ASSETS**

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$20 per volume, and other library holdings are valued at various standardized values. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the college charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Under a contract with the Tennessee Department of Labor, the college is the administrative entity and grant recipient for the Job Training Partnership Act in service delivery area 2 of the State of Tennessee. The title to all the equipment purchased by the college under the provisions of the act resides with the U. S. Department of Labor. Therefore, this equipment is not included in the college's plant fund assets.

**NOTE 11. PLANT FUND ENCUMBRANCES**

Plant fund encumbrances outstanding at June 30, 1995, amounted to \$6,770.00 for unexpended plant and \$18,963.99 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1994, amounted to \$127,236.88 for unexpended plant and \$24,825.36 for renewals and replacements.

**NOTE 12. NOTES PAYABLE**

Walters State Community College Foundation, on behalf of the college, borrowed funds to provide financing for an Agribusiness Pavilion. The foundation entered into two loan agreements. One note bears an interest rate of 6%, and a face amount of \$25,000.00. Principal of \$10,000.00 was paid during fiscal year ending June 30, 1994. This note was paid in full on November 21, 1994. The other note bears an interest rate of 6.5%, a face amount of \$75,000.00, and a due date of January 21, 1996. Principal of \$8,000 was paid toward principal during fiscal year ending June 30, 1995.

The balance including accrued interest was \$67,107.41 at June 30, 1995, and \$90,626.82 at June 30, 1994.

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**NOTE 13. WALTERS STATE COMMUNITY COLLEGE FOUNDATION**

The college is the sole beneficiary of the Walters State Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are handled by the college, and the assets and liabilities of the foundation are included in the agency funds on the college's balance sheet.

**NOTE 14. PENSION PLANS**

Defined Benefit Plan

All the college's regular employees may participate in a cost-sharing multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The payroll for employees covered by the TCRS plan was \$8,525,230.09 for the year ended June 30, 1995, and \$8,296,082.35 for the year ended June 30, 1994. The college's total payroll was \$12,404,320.88 for the year ended June 30, 1995, and \$11,904,250.66 for the year ended June 30, 1994.

TCRS members may retire at age 60 with five years of service or at any age with 30 years' service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. TCRS benefits are based on the number of years of creditable service and highest average salary for five consecutive years. Members attain vesting rights after five years of service. The TCRS also provides death and disability benefits. Benefits are established by state statute.

The college is required by state statute, effective July 1, 1981, to contribute the amounts necessary to pay benefits when due. Prior to that date, the employee bore a portion of the contribution. Members with contributory service who leave the college are eligible for a refund of their contributions, along with contributions made after July 1, 1981, on the employees' behalf by the college. The actuarially required contribution made for the year ended June 30, 1995, was \$539,878.36, which represented 6.33% of the covered payroll, and for the year ended June 30, 1994, was \$553,524.70, which represented 6.67% of the covered payroll.

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The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the funding status of the TCRS on a going-concern basis, assess progress in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. The TCRS does not make separate measurements of assets and pension benefit obligation for individual state employers. Therefore, the following information is provided for the entire state employee portion of the TCRS. The pension benefit obligation at June 30, 1995, and at June 30, 1994, determined through an actuarial valuation performed as of June 30, 1995, was \$10,697.4 million and through an actuarial update performed as of June 30, 1994, was \$9,344.5 million. The net assets, at cost or amortized cost, available for benefits were \$11,566.8 million at June 30, 1995, and \$10,772.4 million at June 30, 1994, leaving assets in excess of pension benefit obligation of \$869.4 million at June 30, 1995, and \$1,427.9 million at June 30, 1994. The market value of the net assets available for benefits was \$12,552.1 million at June 30, 1995, and \$11,106.5 million at June 30, 1994. The college's 1995 and 1994 contributions represented .19% and .21% of total contributions required of all participating entities.

Ten-year historical trend information showing the progress of the TCRS in accumulating sufficient assets to pay benefits when due is presented in the June 30, 1995, *Tennessee Consolidated Retirement System Comprehensive Annual Financial Report*.

Defined Contribution Plans

The college has three defined contribution plans offered through the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are available only to eligible faculty and staff exempt from the overtime provision of the Fair Labor Standards Act. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. State statute requires the college to contribute an amount equal to 10% of the employee's base salary below the social security wage base and 11%

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above the social security wage base. Members are fully vested upon entry into the plans.

The payroll for employees covered by the defined contribution plans was \$2,836,078.20 for the year ended June 30, 1995, and \$2,580,456.20 for the year ended June 30, 1994. The college's total payroll was \$12,404,320.88 for the year ended June 30, 1995, and \$11,904,250.66 for the year ended June 30, 1994. The required contribution made by the college for the year ended June 30, 1995, was \$283,607.82, and for the year ended June 30, 1994, was \$258,045.62, which both represented 10% of the covered payroll.

**NOTE 15. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 16. OTHER ADDITIONS**

The Statement of Changes in Fund Balances for the year ended June 30, 1994, includes \$341.22 as an "other addition." This amount is an adjustment to the allowance for doubtful accounts.

**NOTE 17. INSURANCE-RELATED ACTIVITIES**

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance coverage.

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At June 30, 1995, the scheduled coverage for the college was \$25,575,500.00 for buildings and \$10,725,200.00 for contents. At June 30, 1994, the scheduled coverage was \$22,579,600.00 for buildings and \$9,820,500.00 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

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**NOTE 18. COMMITMENTS AND CONTINGENCIES**

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$4,521,034.33 at June 30, 1995, and \$4,046,640.26 at June 30, 1994.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$40,981.61 and for personal property were \$46,983.42 for the year ended June 30, 1995. The amounts for the year ended June 30, 1994, were \$36,081.47 and \$43,049.56. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1995, outstanding commitments under construction contracts totaled \$9,588,787.75 for the projects listed below, all of which will be funded by future state capital outlay appropriations.

Agribusiness Pavilion	\$1,013,865.65
Library	<u>8,574,922.10</u>
	<u>\$9,588,787.75</u>